

2007 Annual WASHTO Civil Rights Subcommittee

Rolling Owner Controlled Insurance (OCIP) and Contractors Assistance Program consistent with

Business Opportunities and Workforce Development (BOWD) introduction

*Prepared by
American Association of State Highway and
Transportation Officials (AASHTO) & Global Risk
Managers, Inc.*



Overview of Program



About AASHTO OCIP

- American Association of State Highway and Transportation Officials (AASHTO) is a nonprofit, nonpartisan association representing highway and transportation departments in the 50 states, District of Columbia and Puerto Rico.
- Recognizing the strength of the GAO and TRB findings, the AASHTO has participated with Global Risk Managers, Inc. (Global) as AASHTO's broker of record to provide brokerage services to enable AASHTO member organizations to take full advantage of the OCIP benefits.

About Global Risk Managers, Inc.

- Global was founded in 1991 to provide risk management services to public and private entities. Global is a minority owned and managed company incorporated and domiciled in the State of Georgia.
- Global has a relationship with Willis Group and the National Association of Minority Contractors (NAMC). Willis Group has offices across the country and was established to provide risk management services to clients around the globe.
- Global and NAMC have successfully established innovative solutions to complex problems and assisted small and minority contractors through OCIP, Contractor Assistance and Surety programs

The Insurance Market (IRMI)

- Post September 11th and Katrina the insurance marketplace has been in a total state of turmoil. The cost of every form of insurance have escalated, making it difficult for small-to-midsize contractors to obtain the necessary insurance required by the owner under its contract provision.
- There is limited capacity/reinsurance. There is a cost impact on contractors bids due to the state of the marketplace. There is a limited number of qualified bidders because of the cost and availability of insurance limits required under the contracts
- General contractors may not require up-to-date and complete certificate of insurance from their subcontractors or confirm their validity and may not pass the contractual requirements through to their subcontractors

The Insurance Market (IRMI)

- There are limited coverage terms and conditions, including the following:
 - a) Acceptable financial rating of insurers
 - b) Additional insured status-more difficult to receive the preferred additional insured endorsement.
 - c) Reduced limits of coverage
 - d) Less availability of key coverage components
 - e) Higher deductibles/SIRs-ability for contractors to meet them financially
 - f) Surety capacity and solvency

What is a Wrap-Up (OCIP)

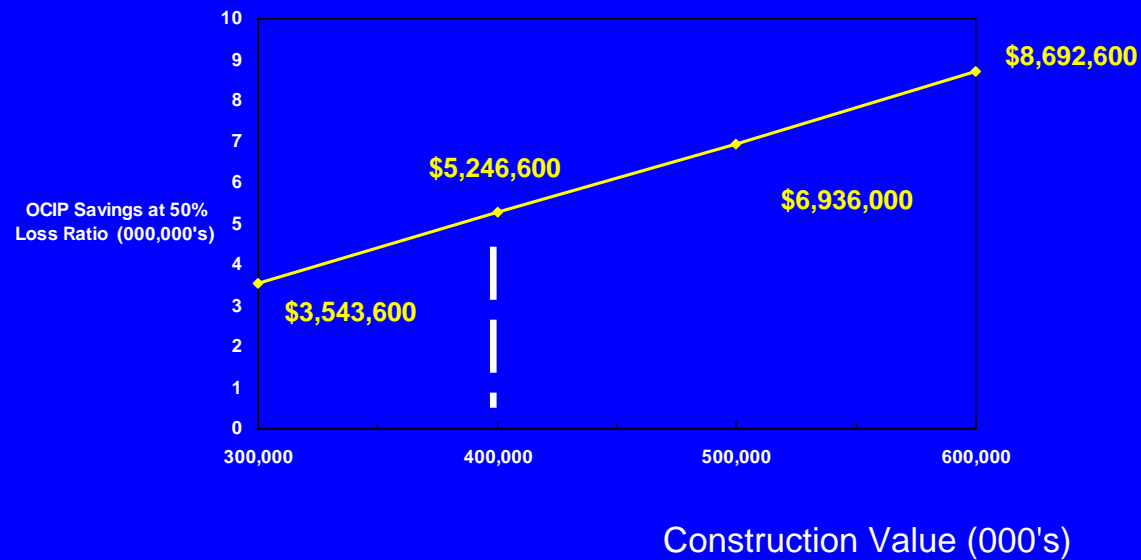
An insurance program in which:

- ▣ the owner procures certain insurance policies protecting both the owner and various contractors involved rather than relying on the individually purchased insurance policies of the various contractors.
- ▣ Typical insurance policies are:
 - workers compensation
 - general liability with extended completed operation coverage
 - umbrella liability
 - builders risk insurance
 - can include professional and environmental liability

OCIP Benefits to The WASHTO members

- Substantial savings (\$1.5 to \$3 million per \$100 million) over contractor- provided insurance program for WASHTO construction projects. Centralized/financially stable insurance carrier for all contractors; consistent coverage and limits
- Coordinates coverage for cross suits and eliminates insurance carrier subrogation
- Potential for increased participation of small and minority contractors
- Standardized insurance for all contractors
- Minimize claims and litigation cost
- Provide a funding source for additional construction, small and DBE contractor assistance

Sample OCIP Savings Over 4 Year Period



Owner Controlled Insurance Program

Workshop Brief

The FHWA memorandum dated January 7, 2002 notes:

“ Owner Controlled Insurance Programs (OCIPs) are an effective way to improve the safety of construction operations and reduce the cost of insurance on large projects. Additionally, federal-aid funds can be used to participate in OCIPs on Federal-aid projects.”

AASHTO OCIP Benefits & Burdens for WASHTO members

Benefit	Burden	Source
Savings - (2% of budget) will allow for additional construction projects to be included	Contractors reduced profits from insurance rebates	GAO Report
Increased Safety	Requires Education & Cooperation of the Owner and Contractors	TRB Report
Federal-Aid Reimbursement Eligibility	Guidance and Limits on Federal Reimbursement of Insurance Costs	FHWA Memorandum, dated January 8, 2002

Excerpt from GAO Report on OCIPs

(Demonstrated Savings)

Dollars in millions				
Project name and location	Total project cost	Insurance Costs		Insurance Savings
		Traditional	Wrap-up	
Blue Water Bridge, Michigan	\$97.2	\$10	\$7.1	\$2.9
Boston Central Artery Tunnel, Massachusetts	\$10,800	\$1,030	\$765	\$265
I-15, Salt Lake City, Utah	\$1,600	\$52.2	\$22.3	\$29.9
CTA Green Rehabilitation Chicago, Illinois	\$408.7	\$32.5	\$21	\$11.5
Hudson-Bergen Light Rail (initial segment)	\$992	\$20	\$11	\$9
Tri-Met, Westside Light Rail, Portland, Oregon	\$952	\$27.1	\$17.2	\$9.9

OCIP Benefits to the WASHTO members

- Substantial savings per year based on an annual construction budget
- Allow for additional construction and DBE participation
- Increased Safety
- Broader Insurance Coverage Options
- Federal-Aid Eligible for WASHTO projects
- Participation in AASHTO's national OCIP Program and the financial strength of highest rated insurance companies
- Potential funding for Surety Bond and Contractor Assistance programs for small and minority contractors

Excerpts from GAO Report

- ***Results in Brief, Page 1:*** “Owners of transportation projects, such as transit agencies and state departments of transportation, experience a number of advantages and disadvantages when they use wrap-up insurance.
- “Major advantages include savings from buying insurance “in bulk,” eliminating duplication in coverage, handling claims more efficiently, reducing potential litigation, and enhancing workplace safety.”
- “According to insurance industry officials, wrap-up insurance can save project owners up to 50 percent on the cost of traditional insurance, or from 1 to 3 percent of a projects construction cost, depending on its size.”

Excerpts from TRB Report

- “DOTs are using OCIPs both for individual transportation projects and for groups of projects. “
- “Because OCIPs enhance risk management, more than 10 state DOTs have used some form of controlled insurance on one or more of their projects. “
- “The idea behind these programs is for the sponsor to purchase workers’ compensation and liability insurance for all parties working on a project.”
- “The OCIP provides a single point of contact for all liability issues, prevents insurance coverage gaps or redundancies, and should reduce underwriting and claims administration expenses.”
- “The results of such a program are a safer jobsite and lower construction costs.”

*OCIP Team Member: **WASHTO's Responsibilities***

- Define goals and objectives
- Authorize and support programs
- Implement OCIP contract enabling language
- Assist with underwriting data collection and marketing (as needed)
- Fund premiums, claims (within deductibles) and service fees (as required)
- Endorse & enforce safety program
- Attend various service and claims meetings (as needed)

OCIP Team Member: AASHTO's Service Responsibilities

- Assist defining goals and objectives
- Provide OCIP contract enabling language
- Collect underwriting data
- Prepare underwriting specifications
- Design & market program and recommend program insurers
- Prepare program manuals
- Implement insurance program
- Administer OCIP
- Coordinate master safety program with contractors safety programs
- Maintain ethical and moral standards

OCIP Team Member: AASHTO's Service Responsibilities, (continued)

- Evaluate claims administration
- Report program status and provide consultation to the City & contractors
- Provide risk management information system
- Collect payroll data from contractors
- Coordinate and evaluate insurer activities
- Consult on safety and industrial hygiene issues
- Manage Safety Incentive programs
- Schedule and facilitate safety meetings
- Attend Owner meetings and all pre-bid and pre-construction meetings.

*OCIP Team Member: **Contractor's Responsibilities***

- Complete and submit enrollment forms
- Report payroll to administrator on timely basis
- Participate in safety program design
- Follow safety and claims handling procedures
- Attend safety and claims team meetings
- Assist in accident investigation
- Maintain ethical and moral standards

OCIP Team Member: Insurance Carrier's Responsibilities

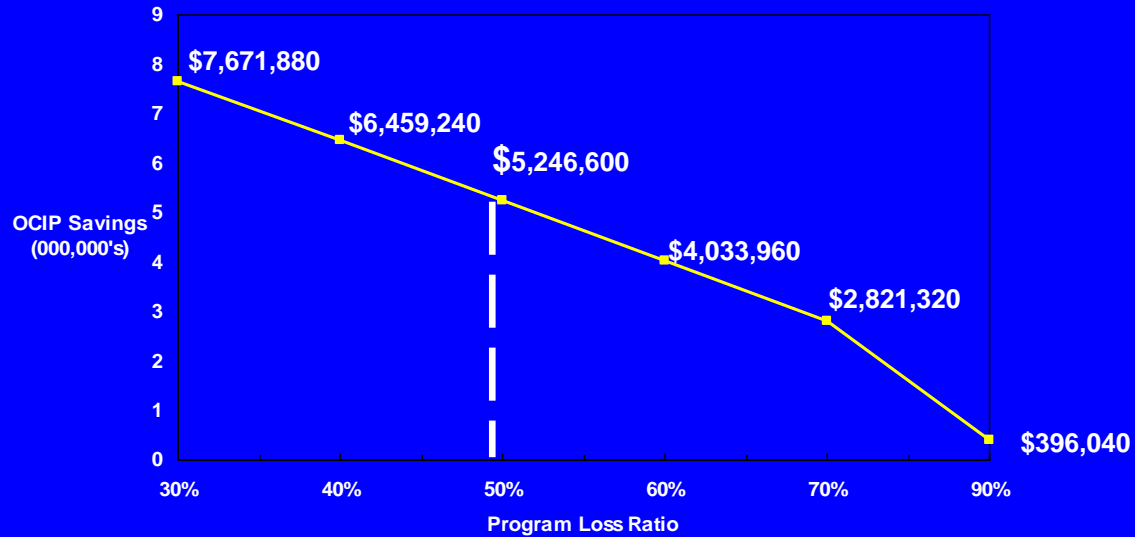
- Underwrite program
- Perform safety & loss control services
- Bill premiums and perform audits
- Provide timely & professional claims management services
- Provide other services, as agreed upon

Contractor Safety Program - Benefits

- Increases safety awareness
- Enhances peer support for a safe working environment
- Provides a reward for safe working behavior of contractor employees
- Impacts the safety culture of all contractors
- Can be combined with existing safety programs to increase rewards
- Specific loss reduction goal focus

Projected OCIP Savings at Various Loss Ratios

(Assumes Contractor Project Cost of \$400,000,000)



Overview of Program



Contractor Assistance Program Benefits

- Provide professional services to Small and DBE contractors consistent with BOWD in the areas of:
 - financial
 - estimating
 - scheduling
 - business management services
 - legal
 - computer training
 - apprenticeship programs
 - mentoring programs

Overview of Program



Surety Bonding Assistance Program

Benefits

- Provides the most innovative, comprehensive, efficient and 'contractor friendly' level of bonding services.
- Program is consistent with the need to increase Small and DBE participation of prime contractors
- Enables the contractor to increase surety bonding capacity
- Identifies contractors who will qualify through coordinated surety support and outreach programs
- Bonds are underwritten through our exclusive 'A' rated surety program using non-traditional, negotiated underwriting guidelines

Summary & Conclusion



AASHTO's Strengths



AASHTO & Global's Professional Qualifications

- Team qualifications include:
 - CPCUs
 - Professional Engineer (PE)
 - Certified Safety Professional (CSP)
 - CPA
 - Ph.D



NEXT STEPS



AASHTO OCIP Proposed Course of Action

- Contract w/ AASHTO and Global to develop an implementation plan for a WASHTO Rolling OCIP
 - Review City, State and federal regulations
 - Develop schedule of specific City projects to be included
 - Obtain program design approval
 - Meet w/ large and small contractors and associations
 - Prepare OCIP to accommodate suggested changes by contractor if approved by WASHTO for the OCIP
 - Assist WASHTO develop an RFP to select an OCIP Insurer
- Review the plan w/ Executive Director and the Board

Contractor & Bonding Implementation of plan

- Implement the OCIP
- Define the scope of the Contractor and Bonding Assistance services
- Develop Contractor and Bonding workshops
- Develop non traditional Surety Bonding resource for contractors
- Implement the Contracting and Bonding services
- Provide monthly reports to the Executive Director and/or appropriate officials

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